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The Moderating Effect of Growth Opportunity on the Relationship between Corporate Ownership and Dividend Policy

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Abstract

The study investigates the role of corporate ownership identities on dividend policy of Malaysian listed firms. It also examines the severity of agency problems among identities of ownership through its effect on dividend policy after controlling for the moderating effect of growth opportunity. The study sample includes 407 firms for the period of 2012 to 2015. In general, the results show that ownership concentration aligns the managers-owner interests toward the optimal growth opportunity, thus the demand of substantial shareholders' on dividends shifts from positive to negative after considering the moderating effect of growth opportunity. In firms controlled by managers, the high alignment of interests results in lower dividend payout. The severity of agency and expropriation threats in family controlled firms leads to higher dividends even after considering the moderating effect of growth opportunity. Finally, whereas government and foreign ownership are associated with higher dividend payout, the interaction effects of growth opportunities are unclear in such firms.

Keywords: dividend policy, ownership structure, growth opportunity

1. Introduction

Dividend policy has received great interest in the extant literature as an influential key in firms' corporate governance. Researchers argue that dividends impose a financial monitoring mechanism that restrains managers from using firms' cash flows for their own interests (Easterbrook, 1984; Jensen, 1986; Rozeff, 1982). They suggest that dividends curtail the excess cash that might be subject to managers' discretion. Moreover, disgorging the cash out in dividends form keeps firms constantly under financial market monitoring as they regularly depend on the market for capital. Consequently, high dividends alleviate the agency costs that arise due to the contradiction of interests between managers and shareholders.

However, high dividends might not be desirable at all time. Myers (1984) and Myers and Majluf (1984) argue that the severity of external finance costs increases when firms experience high growth opportunities. Therefore, firms balance their internally generated funds with investment opportunities. Accordingly, firms reduce dividends to avoid expensive external finance and increase dividends only when there is a persistent surplus in free cash flow over investment expenses. They attribute the costs of external finance to the information asymmetry between managers and investors.

Given the agency costs and information asymmetry costs, if shareholders are aware of growth opportunities, their demand for dividends should be decreased, but the separation of shareholdings and management undermines the shareholders' awareness of growth opportunities. Furthermore, the severity of agency problems might overwhelm the firms' concern regarding costs of finance. Jensen and Meckling (1976), Rozeff (1982) and Easterbrook (1984) assert that ownership concentration, large shareholders and managerial ownership result in great convergence between managers and shareholders. Such convergence of interests relieves the agency costs and could substitute the dividends-induced monitoring. In contrast, La Porta *et al.* (2000a) and Faccio *et al.* (2001) highlight a different sort of agency conflicts that are associated with ownership concentration. They suggest that controlling shareholders, like managers, might extract benefits from firms' policies at the expense of minority shareholders. La Porta *et al.* (2000a) find that firms with high growth opportunity keep paying high dividends when the threats of expropriation of minority wealth are high. In addition, researchers demonstrate that the relationship between dividends and corporate ownership varies based on the identity of dominant shareholders (Al-Nawaiseh, 2013; Maury & Pajuste, 2002; Truong & Heaney, 2007).

The objective of this study is to investigate the role of different corporate ownership identities on the dividend policy of the Malaysian firms. The study also examines the interaction between growth opportunities and ownership identities as a determinant factor of dividend policy. The corporate ownership in Malaysia has been reported to be highly concentrated. In a study of 599 sampled firms from Malaysia, Lim *et al.* (2014) document that the largest shareholders on average

own 30.5% of firms' shareholdings. This high ownership concentration raises the probability of expropriation of minority shareholdings in Malaysia. La Porta *et al.* (2000b) argue that ownership concentration is most common in the market with lower investors' protection. However, according to the World Bank's shareholders protection index, Malaysia scored the highest level among countries on average over the period 1990 to 2013 (The World Bank, 2015). Furthermore, researchers who have used the legal system as a measurement of investors' protection, suggest that common law is associated with higher protection compared to civil law (Faccio *et al.*, 2001; Katelouzou & Siems, 2015). Accordingly, investors shall enjoy higher protection as Malaysia adopts a common law legal system. In contrast, Tam and Tan (2007) allege that despite the strong legal framework in Malaysia, the enforcement is inefficient. The intervention of government and large shareholders impedes the protection of investors in Malaysia. Benjamin *et al.* (2016) assert that unlike developed markets in common law countries, shareholders in Malaysian market enjoy a strong legal system of protection with high private benefits of control.

Besides the high ownership concentration, corporate ownership in Malaysia has shown a variety of dominant shareholders' identities. Amran and Ahmad (2013) reported that in average managers and families hold 44.6% and 43.2% of the Malaysia firms' ownership respectively. Narasingam and Vasudevan (2014) highlight that government ownership accounts for 36% market capitalization of Bursa Malaysia. Ghazali (2010) found that foreigners have a mean shareholding of 23.8% of Malaysian firms that included in KLSE composite index.

The variety in corporate ownership identities and the severity of agency problems in the Malaysian market motivates the study to investigate the role of corporate ownership identities on dividend policy. This study contributes to the literature of corporate ownership and corporate finance by examining the interaction of ownership structure and ownership identity with growth opportunity to form the firms' agency costs and their relation to dividend policy in that firms. By doing so, the study could rank the severity of agency problem based on the identity of controlling shareholders and determine whether the level of dividends reflects the probability of expropriation.

2. Literature Review and Hypothesis

2.1 Information asymmetry Model

Basically, the main assumption of information asymmetry theory is that managers have information about firms that are not clearly revealed to outsiders. Therefore, firms' policies and managers' decisions might convey unambiguously signal to outsiders regarding firms' future performance. However, literature developed two opposite theoretical models of information asymmetry regarding dividends.

John and Williams (1985) and Miller and Rock (1985) developed a theoretical model to predict dividend policy under information asymmetry. They suggested that future cash flow could be inferred through firms' dividends changes. When managers are expecting higher growth in earnings based on information that outsiders do not know, dividends could indirectly reflect future growth. Hence, dividends are used to attenuate the information asymmetry between managers and outsiders. Yoon and Starks (1995) found that dividends increase were followed by significant capital expenditure growth and dividends changes were associated with analysts' expectations regarding future earnings.

An alternate model, although not mutually exclusive, Myers (1984) and Myers and Majluf (1984) argue that information asymmetry increase the cost of finance, the investors' unawareness of investment opportunities lead to undervaluing the newly issued securities. Therefore, managers could abandon a profitable investment opportunity under information asymmetry. To avoid underinvestment problem, firms build up financial slake by paying less dividends.

2.2 Agency Model

In the literature, two types of agency problems are highlighted. The primary assumption of agency-I is that the separation of ownership and management raises the probability of contradiction of interests between managers (agent) and shareholders (principal) (Jensen & Meckling, 1976). Managers could deviate from the firms' main objective of maximizing shareholders wealth and modify firms' policies to achieve private benefits. Such an agency problem (agent-principal conflicts or agency I) is more pronounced in firms with highly dispersed ownership structure. According to agency theory I, insider ownership and outside ownership concentration reduce the likelihood of conflicts between managers and shareholders and contribute to aligned decisions making (Shleifer & Vishny, 1986). Furthermore, dividend policy is an effective

monitoring device to limit the free cash flow which is subject to managerial exploitation (Jensen, 1986; Rozeff, 1982).

Agency type II represents the severity of agency when large shareholders use their voting power to affect decisions making and firms' policies for their own interests (Shleifer & Vishny, 1997). Therefore, minority shareholders are exposed to the risks of expropriation with higher ownership concentration. The expropriation threats are widely found in an environment with poor investment protection and week corporate governance (Faccio *et al.*, 2001; La Porta *et al.*, 2000b).

2.3 Dividends, Ownership Structure and Growth Opportunities

Literature extensively investigated the relationship between corporate ownership and dividend policy. Nevertheless, these studies show inconclusive findings. The explanations of dividend-ownership relation were based on the severity of agency problem that firms confront. Some studies have found a negative relationship between dividends and ownership concentration (Gugler & Yurtoglu, 2003; Harada & Nguyen, 2011; Maury & Pajuste, 2002; Rozeff, 1982; Yusof *et al.*, 2016). They have concluded that the concentration on ownership structure creates an alignment of interests between managers and shareholders. Since large shareholders can easily monitor the management, the alignment effects reduce the need for dividend-induced monitoring.

On the other hand, several studies have found that positive relationship exists between dividend and ownership concentration (Ahmed & Javid, 2009; Fairchild *et al.*, 2014; Miko & Kamardin, 2015; Setiawan *et al.*, 2016; Thanatawee, 2013). Unlike dispersed ownership, managers in concentrated firms are disciplined by controlling shareholders who force them to pay higher dividends (Miko & Kamardin, 2015). Contrary to alignment hypothesis, Fairchild *et al.* (2014) argue that the presence of large shareholders might indicate a negative impact on agency costs and raise the contradiction in interests between the dominant and minority shareholders. Therefore, higher dividends are demand with the presence of ownership concentration. Most studies that investigate the majority-minority conflicts of shareholders refer the agency costs to the probability of expropriation under weak investor protection and legal system (Bebchuk, 1999; Faccio *et al.*, 2001; Fairchild *et al.*, 2014; Truong & Heaney, 2007).

The question remains whether dividend policy is merely determined due to firms' agency problems, or whether agency variables are proxy for other variables. The root of agency problems is imputed to the insiders' discretion (managers or large shareholders) on firms' free cash flow. Jensen (1986) suggests that the conflicts between managers and shareholders regarding dividend policy are represented in disgorging out the excess cash after holding all investment opportunities with positive net present value. Therefore, the firms' agency costs are based on managers-owner perception regarding the optimal growth. Managers tend to hold higher growth, which might be beyond the optimal size and include investments with negative net present value. Accordingly, based on the alignment hypothesis, ownership concentration should align the interests of managers and shareholders toward growth opportunities. Consistent with Myers (1984) assertion that dividends relationship with investment opportunity is negative, the relationship between dividends and ownership could be positive or negative according to firms growth opportunities.

In contrast to alignment hypothesis, the negative impact of ownership concentration might make dividend-ownership relation are indifferent to the firms' growth opportunity. In point of fact, Johnson *et al.* (2000) provide several circumstances where dominant shareholders have used firms' profitable growth opportunities to expropriate small shareholders wealth. La Porta *et al.* (2000a) suggest that minority shareholders are exposed to higher agency problems in countries with weak legal protections. They conclude that dividend policy under good protection is an outcome of firms' growth opportunities. In addition, dividend policy under weak protection is a substitute for the poor legal protection.

Therefore, the general expectation for the relation is that if ownership structure results in lower agency costs, dividend policy will be subject to non-monitoring factors, and the relationships between ownership structure and dividends are moderated negatively by firms' growth opportunities. Similarly, if ownership structure increases the severity of agency problems, dividend-induced monitoring is a key factor of dividend policy, and growth opportunity has no moderating effect on the relationship between dividend and ownership structure. Thus, study mainly hypothesizes that:

$H1_a$: Dividend payout is positively related to ownership concentration.

$H1_b$: Growth opportunities negatively moderate the relationship between dividend and ownership concentration.

Similarly, literature provides inconclusive results regarding the relationship between dividend payout and the different identities of ownership. Both positive and negative relationships are found and justified by either the alignment effects or the minority concern of expropriation. Yoshikawa and Rasheed (2010), Pindado *et al.* (2012), Benjamin *et al.* (2016) and Setiawan *et al.* (2016) found a positive relationship between dividend payout and family ownership. They suggested that the presence of family ownership enhances shareholders monitoring on management on one hand and intensifies the threats of expropriation on the other hand. Thus, higher dividends payout is associated with family ownership. De Cesari (2012), Hwang *et al.* (2013), Michiels *et al.* (2015) and Attig *et al.* (2016) found a negative relationship between dividend payout and family ownership. Djebali (2015) argue that since family shareholders directly engage in management or indirectly "strong monitoring on it", the agency problem is not so acute in these firms. Furthermore, the family concern about the bankruptcy risk and financial costs as well as the family name and future generation motivate family controlled firms to reduce the dividend payout.

Other types of ownership identity are government and foreign ownership. Unlike private investors, the government has economic, political, and social objectives that might affect firms' policies differently. Al-Malkawi (2007) conclude that firms controlled by government are exposed to double principal-agent conflicts where citizens are the ultimate owners of the firms. Glen *et al.* (1995) suggest that since investors' protection is mainly government responsibility, minority concerns are given great attention in firms controlled by the government. However, although Wang *et al.* (2011), Abdullah *et al.* (2014) and Lin *et al.* (2017) found positive relationship between dividend and government ownership, negative relationships are reported by Asadi and Oladi (2015) and Al-Najjar *et al.* (2016). In the same way, mixed results have been reported in the literature regarding the relationship between dividends and foreign ownership. Jeon *et al.* (2011), Warrad *et al.* (2012), Setiawan *et al.* (2016) and Cao *et al.* (2017) report that foreign ownership has a significant positive relationship with dividend payout. Mian and Nagata (2015) argue that active monitoring of foreign ownership optimizes the investment and dividend policies in the firms. Yoshikawa and Rasheed (2010) Lam *et al.* (2012) Al-Najjar *et al.* (2016) have found a negative relationship between foreign ownership and dividend payout. They mutually agree that foreign investors target the capital appreciation and long-run growth rather than dividends.

Extension to the above discussion, this study suggests that the severity of agency problems might varies within the country based on the identity of ownership. The family and managerial ownership are involved directly in the management; hence the alignment effects of concentration ownership are expected to be more pronounced in the case of family and managerial ownership. The excess cash flow would not be matter as it is under their direct discretion. In contrast, other identities of ownership, like government, foreign institute, and other outside large shareholders are not directly engaged in the management. Therefore, the ownership concentration drives alignment of interests toward optimal growth while the demand on dividends still remains. Based on the above discussion and literature review, the study hypothesizes that:

$H2_a$: Dividend payout is negatively related to managerial ownership.

$H2_b$: Growth opportunity negatively moderates the relationship between dividend and managerial ownership.

$H3_a$: Dividend payout is negatively related to family ownership.

$H3_b$: Growth opportunity negatively moderates the relationship between dividend payout and family ownership.

$H4_a$: Dividend payout is positively related to government ownership.

$H4_b$: Growth opportunity moderates the relationship between dividend payout and government ownership negatively.

$H5_a$: Dividend payout is positively related to foreign ownership.

$H5_b$: Growth opportunity moderates the relationship between dividend payout and foreign ownership negatively.

3. Methodology

The population of the study was the Malaysian listed firms in the main market of Bursa Malaysia within the period of 2012 to 2015. Financial related firms are excluded from the sample since these firms are subject to different regulations and accounting standard. Firms with incomplete data were eliminated from the sample too. Finally, to avoid the misleading of zero dividends due to losses, firms that experience losses as the outcome of their activities were excluded. The final sample

is composed of 407 firms and a total of 1628 firm-years observations. The financial data were collected from Worldscope Database (Thomson Financial). The data regarding corporate ownership variables were collected manually from the annual reports downloaded from the Bursa Malaysia website.

3.1 Model Specification and Estimation Technique

To examine the role of corporate ownership variables on firms' dividend policy, a regression equation is specified as the basis for testing the study hypothesis. The regression model includes the firms' specific variables, which have been found significantly related to dividend policy in previous studies.

$$Div_{it} = \beta_0 + \beta_1 CON + \beta_2 Family + \beta_3 Managerial + \beta_4 Gov + \beta_5 Foreign + \beta_6 Tq + \beta_7 ROA + \beta_8 Leverage + \beta_9 Beta + \varepsilon \quad \ldots\ldots\ldots\

Table 1:

Durbin (score)		Wu-Hausman		Heteroskedasticity		Autocorrelation	
chi2(1)	10.77	F(1,1615)	10.76	chi2(1)	700.01	F(1,406)	3.761
Prob>chi2	0.0010	Prob>F	0.0011	Prob>chi2	0.0000	Prob>F	0.0531
H0: variables are exogenous		H0: variables are exogenous		Ho: Constant variance		H0: no first-order autocorrelation	
Rejected		Rejected		Rejected		accepted	

4. Empirical Results and Discussion

4.1 Descriptive Statistics

The summary statistics of variables for sampled firms are provided in Table 2. On an average, firms distribute 32.8% of their earnings in cash dividends forms which is similar to 33% reported by Benjamin *et al.* (2016) for a sample of Malaysian firms. The mean values of corporate ownership variables are 57%, 24%, 32%, 8.5% and 11% for substantial, family, managerial, government and foreign ownerships respectively. This indicates that the corporate ownership in Malaysia is highly concentrated and mostly dominated by family and managerial ownership. In addition, Table 2 shows that the sample firms have average values of 1.13, 7.9%, 24% and 0.763 for growth opportunity, profitability, leverage ratio and firms' risk respectively. The distribution of dividend payout ratios shows that it is positively high skewed and the kurtosis which represents the unflatter tails of payout ratio's population. Therefore, winsorizing technique at 0.05 is used to eliminate the effect of extreme values in the data.

Table 2: Descriptive statistic

Variables	Mean	Std.Dev	Min	Max	Skewness	Kurtosis
Div	0.328	0.262	0	14.84	13.331	29.68
CON	0.569	0.148	0.118	0.893	-0.526	2.826
Family	0.236	0.257	0	0.854	0.414	1.570
Managerial	0.321	0.243	0	0.821	-0.086	1.663
Gov	0.085	0.170	0	0.904	2.640	9.722
Foreign	0.113	0.181	0	0.894	2.118	6.677
Tq	1.136	1.314	0.145	16.23	5.466	43.58
ROA	0.079	0.066	0.0001	0.196	0.989	3.401
Leverage	0.237	0.221	0	0.923	0.742	2.592
Beta	0.763	0.542	-0.577	2.811	0.652	3.507

4.2 Correlation analysis

In multiple regression models, the correlation between explanatory variables raises the multicollinearity problem which results in inaccurate results. The regression model is considered to have a multicollinearity problem when the correlation between independent variables exceeds 80% (Gujarati & Porter, 2009). From Table 3, the highest correlation value is 64%, which is between ROA and Tq. Therefore, the model of study is free of multicollinearity problem. For the interaction terms which are included in the model equation 2 (M3 and M4 Table 4), the interacted variables are centered before producing the interaction terms to avoid multicollinearity between interaction terms and original variables (Iacobucci *et al.*, 2017).

Table 3: Correlation analysis

	Div	CON	Family	Managerial	Gov	Foreign
Div	1.000					
CON	0.159***	1.000				
Family	-0.088***	0.086***	1.000			
Managerial	-0.207***	0.142***	0.621***	1.000		
Gov	0.221***	0.219***	-0.28***	-0.372***	1.000	
Foreign	0.179***	0.124***	-0.086***	-0.015***	-0.015	1.000

Tq	0.457***	0.173***	-0.145***	-0.153***	0.244***	0.180***
ROA	0.234***	0.078***	0.039	-0.001	0.031***	0.151***
Leverage	-0.395***	-0.126***	-0.020	0.003	-0.065***	-0.204***
Standard	0.094***	0.019	0.004	0.089***	-0.089***	0.076***
Beta	-0.193***	-0.201***	-0.045*	0.008	0.019	-0.073***
	Tq	ROA	Leverage	Standard	Beta	
Tq	1.000					
ROA	0.644***	1.000				
Leverage	-0.430***	-0.451***	1.000			
Standard	0.314***	0.503***	-0.302***	1.000		
Beta	0.042*	0.081***	0.033	0.089***	1.000	
*, **, *** Significant at 10%, 5% and 1% level respectively.						

4.3 Regression Analysis

Table 4 shows the results of regressing dividend against corporate ownership variables and firms' characteristics. M1 and M2 indicate the direct relationship between dividend and independent variables based on 2sls and GMM estimations. M3 and M4 indicate the relationship between dividends and ownership after accounting for the moderating effects of growth opportunities.

The results of 2sls and GMM show that all variables in the model are statically significant except for the profitability (ROA). With respect to firms' specific variables, growth opportunity (Tq) and financial leverage (Leverage) are found to have a positive relationship with dividend payout, whereas the corporate risk has a negative relationship with dividend payout. In contrast to pecking order theory, the results suggest that firms with higher growth opportunity tend to pay more dividends. However, Myers (1984) in his discussion of pecking order theory, suggests that firms might not be able to change their dividend payout ratio in the short term. Therefore, the changes in firm net cash flow due to fluctuation in investment opportunities and profitability are dealt through debt and marketable securities. Furthermore, firms might use dividends to convey a positive signal about future earnings growth to attract investors when internally generated funds are not enough to finance the expected growth. The positive relationship is also consistent with agency II theory (principal-principal conflicts) where the severity of agency costs results in higher dividend regardless of the firms' growth opportunities. The relationship between dividends and growth opportunity is found positive for Malaysian sampled firms by Ardestani *et al.* (2013), Benjamin *et al.* (2016) and Mui and Mustapha (2016).

Profitability (ROA) is an insignificant factor related to dividend policy. Similarly, the results are inconsistent with pecking order theory, which suggests a positive relationship between dividend and profitability (Fama & French, 2002). However, it also supports the interpretation that managers only adjust their dividend payout ratio when the surplus of cash is persistent after balancing profits and investment opportunities. Al-Twaijry (2007) found an insignificant effect of profitability on the dividend policy of Malaysian firms. The results indicate a positive relationship between dividends and leverage ratio which is consistent with agency theory. This positive relationship infers that controlling shareholders set governance mechanism that compels managers to depend on debt and pay more dividends.

Table 4: Regression Results

Independent Variables	Dependent Variable: Dividends			
	M1- 2sls	M2- GMM	M3- 2sls	M4- GMM
CON	0.098**	0.090*	0.083*	0.081*
	(0.046)	(0.068)	(0.091)	(0.092)
Family	0.105***	0.105***	0.122***	0.123***
	(0.001)	(0.000)	(0.000)	(0.000)
Managerial	-0.161***	-0.160***	-0.178***	-0.178***
	(0.000)	(0.000)	(0.000)	(0.000)

Gov	0.122*** (0.000)	0.124*** (0.004)	0.114*** (0.010)	0.116*** (0.009)
Foreign	0.150*** (0.000)	0.153*** (0.000)	0.163*** (0.000)	0.166*** (0.000)
Tq	0.209*** (0.000)	0.211*** (0.000)	0.227*** (0.000)	0.229*** (0.000)
ROA	0.111 (0.425)	0.121 (0.383)	0.044 (0.826)	0.062 (0.755)
Leverage	0.343*** (0.007)	0.355*** (0.005)	0.369*** (0.003)	0.383*** (0.002)
Beta	-0.097*** (0.000)	-0.096 (0.000)	-0.097*** (0.000)	-0.096*** (0.000)
CON*Tq	-	-	-0.090** (0.023)	-0.088** (0.028)
Family*Tq	-	-	0.089*** (0.005)	0.090*** (0.004)
Managerial*Tq	-	-	-0.112*** (0.000)	-0.112*** (0.000)
Gov*Tq	-	-	-0.025 (0.474)	-0.026 (0.454)
Foreign*Tq	-	-	-0.019 (0.309)	-0.021 (0.268)
N. Obs	1628	1628	1628	1628
R^2 %	11.63	10.76	10.91	9.87
P-value	0.000	0.000	0.000	0.000

*, **, *** Significant at 10%, 5% and 1% level respectively.

The findings of the study show that corporate risk (Beta) has a negative relationship with dividend payout. The results support previous studies (Al-Najjar & Hussainey, 2009; Amidu & Abor, 2006; Ibrahim Eldomiaty *et al.*, 2014; Rozeff, 1982) who argue that firms' risk increases the costs of finance, as a result, dividends decrease to avoid the need of external finance.

As for corporate ownership variables, while Managerial ownership affects dividends negatively, substantial (CON), family, government and foreign ownerships affect dividends positively. Overall, the positive relationship between ownership concentration (CON) and dividends is identical with the agency theory. Ownership concentration induces substantial shareholders to incur the cost of monitoring for the interest of all shareholders (Harada & Nguyen, 2011; Shleifer & Vishny, 1986). Therefore, the monitoring of substantial shareholders restrains managerial discretion and requests for higher dividends. The results are inconsistent with the assertion of previous studies (Easterbrook, 1984; Khan, 2006; Rozeff, 1982), which suggest that the ownership concentration creates the alignment between shareholders and managers, and this results in a negative relationship between dividends and ownership concentration. However, the results support the hypothesis of study that concentration of ownership aligns the interests toward growth opportunity while the demand of shareholders on free cash flow still remains. Similarly, the results indicate a positive relationship between dividend payout and both foreign (Foreign) and government (Gov) ownership. This result also suggests that the active monitoring of foreign and government ownership drives toward higher dividends.

Managerial ownership (Managerial) has a negative relationship with dividend payout ratio which is consistent with agency theory postulate that the convergence associated with insider ownership attenuates agency costs (Rozeff, 1982). The

negative impact of managerial ownership supports the hypothesis of study that the convergence of interests is more pronounced when controlling shareholders have direct involvement in management. In the contrast, family ownership (Family) has a positive relationship with dividend payout ratio. The results indicate that although the direct representation in management, but family shareholders tends to pay higher dividends. The positive impact of family ownership is consistent with agency theory II, which argue that family firms tend to build up a good reputation by showing great attention to minority shareholders and their concern regarding expropriation (La Porta *et al.*, 2000a).

The results of interaction terms between corporate ownership variables and growth opportunity are presented in M3 and M4 from Table 4. After moderating for growth opportunity, the results show that only substantial (CON*Tq), family (Family*Tq) and managerial (Managerial*Tq) are significant, while government (Gov*Tq) and foreign (Foreign*Tq) are insignificant. Despite the positive direct relationship between concentration ownership and dividends, growth opportunity moderates the relation negatively. This means that large shareholders play a significant role in reducing agency cost and information asymmetry costs by monitoring the managers and request higher dividends when the firm has a lower growth opportunity.

Concerning managerial ownership, the growth opportunity strengthens the negative relationship between managers' shareholding and dividend payout. Contrary, growth opportunity moderates the relationship between family ownership and dividend positively. This means that family controlled firms keep pay higher dividend although there is a need of funds for expected growth opportunity. The results indicate the severity of agency problems associated with family ownership. Minority shareholders are more concerned regarding expropriation in family firms, drive pressure to higher dividends payout.

The results of the current study show insignificant moderating effect of growth opportunity on the relationship between dividend payout and both government ownership and foreign ownership. The expected moderating effects were negative as the ownership concentration aligns the interests of shareholders and mangers toward investment growth. Therefore, firms with concentrated ownership reduce dividends when they experience high growth opportunity. However, the insignificant results might be due to the small shareholdings of foreign and government in the firms' ownership where the mean values of their shareholdings are 11% and 8.5% respectively.

5. Conclusion

The study is aimed to provide some explanations for the inconclusive findings on the relationship between corporate ownership and dividend policy. Both dividend and corporate ownership structure reflect the firms' agency problem. While dividends mitigate agency through disgorging cash out, ownership concentration sets bidirectional effect in agency conflicts. Furthermore, the information asymmetry associated with growth opportunity increases the cost of finance and calls for lower dividend payout. However, the severity of agency problems in firms drives the concern toward disgorging out the free cash flow rather than hedging for future growth opportunities.

Through testing a board set of corporate ownership identities and controlling for the moderating effect of growth opportunity, the study reveals that ownership concentration optimally reinforces monitoring on managers. The substantial shareholders oblige managers to pay a higher dividend which indicates the convergence of interests between minority and large shareholders. Meanwhile, growth opportunity moderates the relationship negatively which indicate alignment of interests between large shareholders and managers toward the optimal growth.

Among corporate ownership identities, managerial ownership influences dividends payout negatively. Furthermore, the growth opportunity strengthens the negative impact of managerial shareholders on dividends. Family controlled firms give great attention to minority shareholders concerns where the family ownership keeps showing positive relationship even after considering the interaction effect of growth opportunity. Government and foreign shareholders contribute to increasing the firms' dividend payout with weak evidence on the moderation effect of growth opportunity.

The findings of the study seem to advocate several applications of the agency framework proposed by prior literature. The ownership concentration reduces agency costs when it creates alignment toward the optimal growth while the demand on free cash flow still remains through higher dividend payout as proposed by Jensen (1986). Second, the severity of agency problems might overwhelm the firm's concern about underinvestment problems in future and growth opportunity as proposed by La Porta *et al.* (2000a).

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